

Internal Auditor Review Program  
Department Internal Control Evaluation and Biennial Reporting Processes

**Review Objective**

To assess the department's ongoing internal control evaluation processes and related biennial report, in accordance with guidelines established in the Office of the State Budget's "General Framework."

**Background**

Public Act 431 of 1984 and the General Framework provide that the department head is responsible for establishing and maintaining an effective internal control system. The Framework establishes the designated senior official, now referred to as the Internal Control Officer (ICO), as the person responsible for coordinating the overall effort to evaluate, improve, and monitor controls in accordance with the Framework. However, management throughout the department should be primarily responsible for conducting the evaluation.

The steps in this review guideline often reference the ICO because of their responsibility for coordinating the overall review, however it is likely that the ICO will delegate certain tasks to other appropriate management staff in order to carry out these responsibilities.

The General Framework provides that the internal auditor should independently verify the integrity of the department's control system, and to conclude whether the evaluation process has been conducted in accordance with the General Framework. The General Framework encourages internal auditors to provide technical assistance or perform other activities that do not limit the internal auditor's authority or independence.

**Review Steps**

**Internal Auditor's Planning**

- 1) Communicate with the Internal Control Officer (ICO) to arrange a starting date and time for the review, and identify other key management associated with the evaluation of internal control processes and subsequent biennial reporting.
- 2) Obtain and review appropriate standards and procedures, including:
  - Administrative Guide to State Government
  - OFM's General Framework and System of Reporting
  - PA 431, 1984 (as amended)
- 3) Review OFM's "Report on the Evaluation of Internal Controls..." for the prior biennial period. To access the report on-line, type in <http://www.michigan.gov/ofm>, then select "Evaluation of Internal Controls," then "Internal Control Resources," then "General Internal Control Evaluation Information," and then select the report.
- 4) Obtain and review correspondence to/from the ICO and/or other management within the department to identify improvements suggested that could affect the current

review.

- 5) Review the corrective action plans included with the prior biennial report and consider the impact any outstanding issues may have on the current biennial reporting.
- 6) Additional review procedures as necessary.

#### **Evaluation of ICO's Planning**

- 1) Obtain from the ICO relevant documentation to gain an understanding of the internal control evaluation and reporting processes.
- 2) Determine if the ICO established procedures that include appropriate timeframes for the various stages of the internal control evaluation and biennial reporting processes.
- 3) Determine if the ICO provided or arranged for orientation and/or training, and provided written guidelines to help explain the objectives of (and procedures) for conducting internal control evaluations and the biennial reporting processes.
- 4) Verify that the ICO identified and assigned responsibility for documenting the department's internal control structure to properly segmented department activities.
- 5) Determine if the ICO required activity level managers to complete a risk assessment evaluation. In addition, determine if the ICO used the activity level risk assessment evaluations, or had an alternative process, to help identify critical activities that directly support the achievement of the department's mission and underlying department-wide objectives.
- 6) Review the internal control evaluation worksheets and/or evaluation tools used and verify that they are sufficient to allow for an effective assessment of internal control components, including IT components, if significantly different from those provided by OFM.

#### **Assessment of Evaluation Efforts**

- 1) Determine if the ICO completed a review of the department activity level evaluation worksheets, and that documentation exists to support the ICO's review.
- 2) Determine if the ICO has a process to ensure that department activity level managers addressed material weaknesses from the prior reporting cycle, as well as material and non-material findings presented in OAG and other external audits released during the current reporting period. On a judgmental sample basis, assess the sufficiency of actions taken to address the material weaknesses and/or OAG and other external audit findings.
- 3) Determine if the ICO has a process to ensure that department activity level managers accurately described risks for each activity listed, identified controls that appear

reasonable to mitigate the identified risks, and described monitoring efforts on the worksheets and/or tools that appear to relate to the controls identified. On a judgmental sample basis, ensure the accuracy and completeness of the information contained in the evaluation worksheets.

- 4) Determine if a department activity level manager certified the evaluations.
- 5) Document IA's opinion regarding the designation of material and non-material weaknesses identified during the evaluation.
- 6) Determine if a corrective action plan was established for each control deficiency.
- 7) On a judgmental sample basis, determine if information contained in the department activity level evaluation worksheets supports their conclusions. Document IA's opinion regarding the sufficiency of the evaluations performed at the department activity level and related conclusions.
- 8) Determine if the ICO ensured that the conclusions in evaluation worksheets for critical department activities agreed with the conclusions stated in the letters of assurance from department administrators, the ICO's certification letter to the department director, and the overall conclusions in the department director's letter to the Governor.
- 9) Additional review procedures as necessary.

### **Reporting**

- 1) Prepare a letter to the ICO that addresses the completeness of the ICO's planning, and resulting internal control evaluation processes and related biennial report. In the letter, the IA should address strengths and weaknesses identified during the IA review, and include suggestions to improve weaknesses identified during the IA review.
- 2) Request a reply from the ICO when weaknesses identified in the internal control evaluation require corrective actions. Document IA review and concurrence with corrective actions.
- 3) Obtain and review the certification letter under the ICO's signature that communicates the department's evaluation of the internal control structure to the Department director. Determine if the letter accurately discloses to the department director the extent of review activities performed and required attestations.
- 4) Prepare the certification letter provided on OFM's website stating the results of the Internal Auditor's review of the department's evaluation of its internal control structure in effect as of the close of the latest fiscal year under review.

- 5) Prepare the letter under the Department Director's signature to communicate the results of the department's evaluation of its internal control structure to the Governor, Auditor General, Legislature and OFM.
- 6) Arrange exit interviews with the ICO and necessary management staff.
- 7) Review working papers and ensure that all data, information, schedules, etc., are included to adequately support the IA's review and conclusions reached.
- 8) Additional review procedures as necessary.